

Firm Growth, Worker Turnover and Wage Dynamics: Evidence from Matched Employer-Employee Dataset

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Extended abstract

The industry dynamics literature shows that firms within an industry may have dramatic differences in product market success, as measured by changes in firm size. In most industries, some firms will be shrinking at the same time others are growing, and this within-industry churning in the fortunes of individual firms often dwarfs the changes in the overall level of output within an industry.

This paper ties the growth of firms to the labor market outcomes of workers, particularly wages. It has been well-established that workers who are laid off experience wage declines, especially if they do not find jobs in their old industries. In this paper, we focus on the up-side of product market changes: the possibility of higher wages from a firm's product market success. We primarily use matched employer–employee data from Denmark, although we check one of our main findings using US panel data.

In this paper, we present some new empirical facts: 1) workers who switched firms often in the past earn higher wages, 2) workers switching to growing firms earn higher wages than workers switching to firms of unchanging size and 3) workers at growing firms earn greater raises. Both these effects are of a greater order of magnitude than the correlation between firm wages and tenure. We argue that these new facts are consistent with a story where voluntarily switching firms often leads to better matches than those held by workers who do not switch. Further, many of these new match opportunities are present because the churning of firm sizes within even the same industry creates new openings in growing firms. Existing workers at growing firms also benefit, as the growth apparently opens the possibility for a faster within-firm upgrading of match quality. These facts show that product market changes affect workers not only through layoffs but also on the upside as workers gain from being at a successful firm.